Gabriel Roeder Smith & Company
Consultant & Actuaries

CITY OF FARMINGTON RETIREE HEALTH CARE PLAN

ACTUARIAL VALUATION REPORT

AS OF JUNE 30, 2008

This report is 100% recyclable

TABLE OF CONTENTS

Section	Page Number	
	--	Cover Letter
		EXECUTIVE SUMMARY
	1-2	Executive Summary
A		**OVERVIEW**
	1-2	GASB Background
	3	GASB Standards
	4-5	OPEB Specific Assumptions
	6	Actuarial Cost Method
	7	OPEB Pre-Funding
B		**VALUATION RESULTS**
	1	Development of the Annual Required Contribution
	2	Determination of Unfunded Actuarial Accrued Liability
	3-4	Comments
C		**RETIREE PREMIUM RATE DEVELOPMENT**
	1-2	Retiree Premium Rate Development
D		**SUMMARY OF BENEFIT PROVISIONS**
	1-3	Summary of Benefits
E		**SUMMARY OF PARTICIPANT DATA**
	1-6	Active Members by Attained Age and Years of Service
	7	Inactive Members by Attained Age
F		**ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS**
	1	Valuation Methods
	2-8	Actuarial Assumptions
G		**GLOSSARY**
	1-2	Glossary

March 4, 2009

Mr. Chris Weber
City of Farmington
City Hall, 23600 Liberty Street
Farmington, Michigan 48335

Dear Mr. Weber:

Submitted in this report are the results of an actuarial valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by the City of Farmington. The date of the valuation was June 30, 2008, effective for the fiscal year beginning July 1, 2009. This report was prepared at the request of the City of Farmington.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the City's financial reporting requirements may produce significantly different results. This report may be provided to parties other than the City of Farmington only in its entirety and only with the permission of the City of Farmington.

The valuation was based upon information, furnished by the City, concerning retiree health benefits, individual members, and financial data. Data was checked for internal consistency, but was not otherwise audited. In addition, the city provided the former employment division for each retiree.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. The undersigned are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Curt Powell, EA, MAAA   Louise Gates, ASA, MAAA   Brian Morris, FSA, MAAA

CP/LG/BM:lr

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Governmental Accounting Standards Board Statement No. 45. In addition, the plan may also need to comply with GASB Statement No. 43.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2009 has been calculated. Below is a summary of the results. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO). The ARC and estimated retiree premiums shown below include an adjustment for an implicit rate subsidy present in your pre-65 rates.

Annual Required Contribution	8.00% Interest	Estimated Premiums Paid for Retirees
Fiscal Year Beginning 2009	$910,935	$586,868

For additional details, please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions accumulated from the implementation of Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance. The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

Executive Summary

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of June 30, 2008 is $15,219,123. The actuarial accrued liability, which is the portion of the $15,219,123 attributable to service accrued by plan members as of June 30, 2008, is $13,126,316. As of June 30, 2008, there is $2,186,781 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of June 30, 2008 is 16.7%.

SECTION A

OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988 the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs: these benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue In the First Fiscal Year Ending After June 15, 1999	**GASB Statement No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After**	**GASB Statement No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After**
Phase 1 Govts. - $100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - $10 million or more, but less than $100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. – Less than $10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB Statements No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in the section titled "Summary of Benefit Provisions".

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45. In general terms though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date. Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans, the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employers' Statement of Net Assets.**

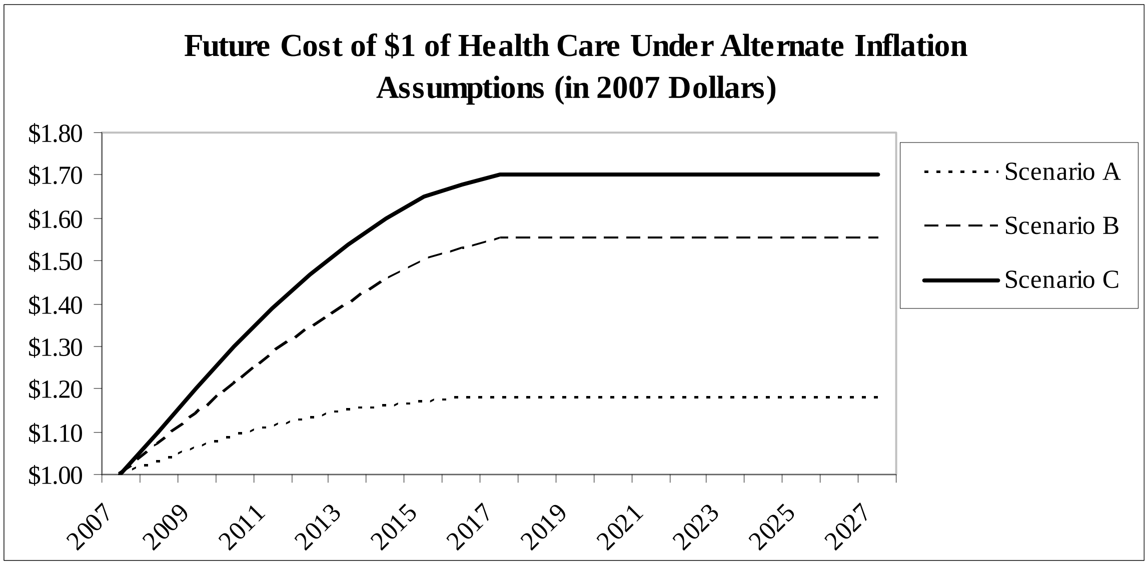
OPEB SPECIFIC ASSUMPTIONS

In any long-term actuarial valuation (such as for pensions and OPEB) certain demographic, economic and behavioral assumptions must be made concerning the population, invested assets and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The rate of investment return assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan. All actuarial assumptions used in the valuation are described in the section titled "Actuarial Cost Method and Actuarial Assumptions".

The cost of providing medical services has been increasing more rapidly than overall consumer prices for many years. During the period from 1957 to 2007, general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue indefinitely, the implication is that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care cost trend rates used in this valuation are recommended by a qualified GRS health care actuary and lie within a range of reasonable assumptions. These are described in the section titled "Actuarial Cost Method and Actuarial Assumptions". The health care cost increase assumption has a major effect on the size of calculated plan liabilities. To illustrate the effect of differing future medical inflation rates, the chart on the following page projects the growth of $1 of health care benefit under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years. The assumption set labeled "Scenario A" begins at a rate of 3% in excess of general inflation, the "Scenario B" assumption begins at a rate of 7% in excess of general inflation, while the "Scenario C" assumption begins at a rate of 10% in excess of general inflation.



The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the "Scenario B" health care increase assumption set. To put this in perspective, assuming health care increases settle down to general inflation almost immediately, as in the "Scenario A" assumption set, future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, projected costs rise as the retiree population grows.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an investment return assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer's general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

ACTUARIAL COST METHOD

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The Entry Age Normal actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PRE-FUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services increase. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan, in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors a common funding objective is to contribute annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the City. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

SECTION B

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION FOR THE OTHER POSTEMPLOYMENT BENEFITS

Contributions for	Development of the Annual Required Contribution for the Fiscal Year Beginning 2009					
	11-General /Non-Union	**14-General Dept. Heads**	**13-DPW (AFSCME)**	**22-Public Safety**	**23-Police Command**	**Total**
Employer Normal Cost	$ 22,152	$ 6,431	$ 11,927	$ 104,890	$ 40,690	$ 186,090
Amortization of UAAL	$ 137,573	$ 52,241	$ 190,109	$ 196,676	$ 148,246	$ 724,845
Annual Required Contribution (ARC)	$ 159,725	$ 58,672	$ 202,036	$ 301,566	$ 188,936	$ 910,935

For the groups open to new hires (Public Safety and Police Command), the ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (5.0% per year). For groups open to new hires (General and DPW), the unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. For groups closed to new hires, the unfunded actuarial accrued liabilities were amortized by level dollar contributions over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JUNE 30, 2008

	11-General /Non-Union	14-General Dept. Heads	13-DPW (AFSCME)	22-Public Safety	23-Police Command	Total
A. Present Value of Future Benefits						
i) Retirees and Beneficiaries	$ 568,721	$547,028	$2,125,360	$3,535,938	$2,402,952	$ 9,179,999
ii) Vested Terminated Members	580,221	0	289,692	0	76,934	946,847
iii) Active Members	739,871	233,520	402,834	2,499,448	1,216,604	5,092,277
Total Present Value of Future Benefits	$1,888,813	$780,548	$2,817,886	$6,035,386	$3,696,490	$15,219,123
B. Present Value of Future Normal Costs	143,415	38,898	86,887	1,490,442	333,165	2,092,807
C. Actuarial Accrued Liability (A.-B.)	1,745,398	741,650	2,730,999	4,544,944	3,363,325	13,126,316
D. Market Value of Assets*	135,476	130,308	506,285	842,301	572,411	2,186,781
E. Unfunded Actuarial Accrued Liability (C.-D.)	$1,609,922	$611,342	$2,224,714	$3,702,643	$2,790,914	$ 10,939,535
F. Funded Ratio (D./C.)	7.8%	17.6%	18.5%	18.5%	17.0%	16.7%

* *Asserts have been allocated according to Actuarial Liability, Retiree Liability first.*

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

COMMENTS

COMMENT A: Compared to expectations, plan experience was somewhat positive during the year. In particular, net premiums increased less than expected. This gain was offset, in part by plan assets returning (2.3%) compared to 8% expected, and health care cost increase trends not decreasing as much as was anticipated in last year's projections.

COMMENT B: There were benefit changes first recognized this valuation. The Plan was closed to all Non-Public Safety members who have less than 20 years of service at June 30, 2009, and there are no longer any deferred retirements allowed. In addition, the benefit cap was removed for Non-Public Safety members, and put in place for Public Safety active members.

COMMENT C: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. Based on information from the plan sponsor, specifically that the City's policy is to contribute 100% of the Annual Required Contribution shown in this report, we have calculated the liability and the resulting ARC using an assumed long-term rate of investment of 8.0%. If the Plan Sponsor chooses to pre-fund with contributions less than the ARC (or not pre-fund at all), GASB requires the use of a lower rate of return on assets. Use of such an interest rate would increase the ARC and the net OPEB obligation that is disclosed on the employer's financial statement.

COMMENT D: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform actuarial valuations at least triennially. An annual actuarial valuation will re-compute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis, as opposed to every 3 years.

COMMENTS

COMMENT E: The contribution rates shown include amortization of the unfunded actuarial accrued liability as a level dollar amount over 30 years for groups closed to new hires (i.e., General/NonUnion, Department Heads, and DPW (AFSCME)), and 30 years as a percent-of-payroll for groups which new hires are eligible for retiree health care (i.e., Public Safety (POAM) and Police Command (COAM)). The maximum time period permitted by the Governmental Accounting Standards Board Statements No. 43 and No. 45 is 30 years.

COMMENT F: Future trends in health costs defy accurate prediction. To the extent that future costs increase more (or less) than projected in this report, the computed liabilities and ARC will be higher (or lower) than shown in this report.

SECTION C

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by the City of Farmington were utilized to determine the appropriate premium rates. The pre-65 fully-insured premiums are blended rates based on the combined experience of active and pre-65 retired members; therefore, there is an implicit employer subsidy for the non-Medicare eligible retirees since the average costs of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees. The true per capita cost for the pre-65 retirees is developed by adjusting for demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group.

For the current active employees, different benefits are available upon retirement. The chart below indicates which plans are open to each active group. We have developed separate premium rates for future retirees in order to reflect the benefit differences.

Employer Group	Active Suffix	Future Retiree Suffix	Rx	Dental
Public Safety Officer	BCBSM 660 or HAPAC	BCBSM 905 or HAPRA	\$15/\$30	N
Command Officer	BCBSM 662	BCBSM 905	\$15/\$30	N
DPW, Dispatch	BCBSM 663 & BCN 0004	BCBSM 119 & BCN 0006	\$15/\$30	Y
Admin Hired Prior to 12/1/06	BCBSM 664 & BCN 0003	BCBSM 119 & BCN 0006	\$15/\$30	Y
Admin Hired Post 12/1/06	BCN 0005	N/A	N/A	N

Age graded and sex distinct premiums are utilized by this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific premiums more accurately reflect the health care utilization and cost at that age.

RETIREE PREMIUM RATE DEVELOPMENT

The combined monthly one-person medical, and drug premiums at select ages are shown below.

Rates Used for Future Retirees			Rates Used for Current Retirees		
For Those Not Eligible for Medicare			**For Those Not Eligible for Medicare**		
Age	**Male**	**Female**	**Age**	**Male**	**Female**
50	$604.02	$684.40	50	$ 671.52	$ 760.87
55	789.45	811.48	55	877.66	902.16
60	991.77	953.31	60	1,102.60	1,059.84

For Those Eligible for Medicare			For Those Eligible for Medicare		
Age	**Male**	**Female**	**Age**	**Male**	**Female**
65	$457.13	$420.95	65	$653.97	$602.22
70	527.29	474.14	70	754.35	678.31
75	585.38	519.51	75	837.46	743.22

Based on the guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective June 30, 2006, an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore, the impact of the RDS is that part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report.

The dental premium rates were not "age graded" for this valuation since dental claims do not vary significantly by age. The monthly one-person dental premium used in this valuation is $42.13 per month for DPW, Dispatch and Admin retirees.

SECTION D

SUMMARY OF BENEFIT PROVISIONS

CITY OF FARMINGTON RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF JUNE 30, 2008

PLAN PARTICIPANTS

Some City of Farmington employee groups that are included in the City of Farmington Employees Retirement System are eligible to receive retiree health care benefits (hospitalization and medical) under the Plan. Other employees or employee groups are eligible to receive retiree health care benefits based on years of service and without regard to membership in the retirement system.

NORMAL RETIREMENT

Eligibility conditions for retiree health care benefits are as follows:

Public Safety (COAM)	Any age with 25 years of service
Public Safety (POAM)	Any age with 25 years of service
Public Safety (Dispatch)	Age 60 with 20 years of service at June 30, 2009
Dept. of Public Works (AFSCME)	Age 60 with 20 years of service at June 30, 2009
General	Age 60 with 20 years of service at June 30, 2009
General Dept. Heads	Age 58 with 20 years of service at June 30, 2009

Percent of Premium for Retiree
Health Care Coverage Paid by the City
for Individuals Retiring after 1/1/1999

Years of Service at Retirement	Public Safety (COAM & POAM)	DPW (AFSCME)	General Employees & Dept. Heads
	Medical/Dental	Medical/Dental	Medical/Dental
10-15	50%/50%	65%/50%	65%/50%
15-20	60%/50%	85%/60%	85%/60%
20-25	100%/85%	100%/85%	100%/85%
25+	100%	100%/100%	100%/100%

- *General employees, Dept. Heads and DPW employees who do not have 20 years of service as of June 30, 2009 are not eligible for retiree medical or dental insurance under this plan.*
- *Public Safety (POAM & COAM) participate in the City Dental Reimbursement Plan which is administered outside the Retiree Health Care Plan.*
- *The Public Safety (Dispatch) Collective Bargaining Agreement effective 1/1/08 – 12/31/09 eliminated eligibility for Dispatch employees to participate in the Farmington Retiree Health Care Plan.*

NORMAL RETIREMENT (CONTINUED)

The City paid portion of the retiree health costs are capped for POAM and COAM Employees. These premium caps increase at 5% per year. For the year ended June 30, 2008 the maximum Monthly premiums paid by the City are as follows:

Single:	$ 660
2 Person:	$1,355
Family:	$1,615

If the premiums exceed these caps, then the employee will be responsible for the entire difference.

DEFERRED RETIREMENT

Eligibility conditions: 10 or more years of service. Benefits are deferred until normal retirement age for Public Works & General Administrative members and until age 65 for Public Safety (COAM & POAM) members..

Benefit: Same as normal retiree health care benefit.

DUTY DISABILITY RETIREMENT

Eligibility conditions: No age or service requirements. Must be in receipt of worker's compensation.

Benefit:

Work incurred disability (total and permanent) with less than 10 years of active service:

	Medical/Dental
Public Safety (COAM & POAM):	40%/40%
Public Service (AFSCME):	40%/40%

For work incurred disability (total and permanent) with 10 or more years of active service, see regular retiree health care benefit schedule.

NON-DUTY DISABILITY RETIREMENT

Non-duty disability with 10 or more years of active service and eligible for a disability retirement benefit, see regular retiree health care benefit schedule.

DUTY AND NON-DUTY DEATH-IN-SERVICE RETIREMENT

With 15 years of service or age 55 with 10 years of service, see regular retiree health care benefit schedule.

MEDICARE ELIGIBILITY

Members and eligible spouses are required to enroll in Medicare when eligible. The City provides complimentary retiree health care coverage after the member and/or eligible spouse becomes Medicare eligible.

SPOUSE AND DEPENDENT COVERAGE

Spouse and qualified dependents are eligible to receive health care from the City of Farmington for the life of the retiree. Coverage continues to an eligible surviving spouse and eligible dependents of retired members.

EMPLOYEE/RETIREE CONTRIBUTIONS

Active employees do not contribute toward retiree health care. Retired employees may be required to pay a percent of monthly retiree health care premium, depending on years of active service.

MISCELLANEOUS

Premiums paid by the retiree for the retiree's share of health care cost for themselves, eligible spouses and dependents are handled outside this Plan. The Plan is intended to fund only the City paid portion of retiree health care cost.

This is a brief summary of the City of Farmington Public Retiree Health Care Plan provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate City Ordinance and/or employee contracts will prevail.

SECTION E

SUMMARY OF PARTICIPANT DATA

ACTIVE MEMBERS AS OF JUNE 30, 2008 - TOTAL BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29	3							3
30-34	2	3	1					6
35-39		2	3	1				6
40-44		2	1	1				4
45-49					3			3
50-54					4	1		5
55-59					2			2
60-64								
65 & Over								
Totals	**5**	**7**	**5**	**2**	**9**	**1**		**29**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age: 40.6 years
Average Service: 13.3 years

ACTIVE MEMBERS AS OF JUNE 30, 2008 – GENERAL/NON-UNION BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29								
30-34								
35-39								
40-44								
45-49								
50-54					1	1		2
55-59					2			2
60-64								
65 & Over								
Totals					**3**	**1**		**4**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age:	54.3	years
Average Service:	22.8	years

ACTIVE MEMBERS AS OF JUNE 30, 2008 – DEPT. HEADS BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29								
30-34								
35-39								
40-44								
45-49								
50-54					1			1
55-59								
60-64								
65 & Over								
Totals					**1**			**1**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age: 54.0 years
Average Service: 23.9 years

ACTIVE MEMBERS AS OF JUNE 30, 2008 - DPW
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29								
30-34								
35-39								
40-44								
45-49								
50-54					2			2
55-59								
60-64								
65 & Over								
Totals					**2**			**2**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age:	52.9	years
Average Service:	21.8	years

ACTIVE MEMBERS AS OF JUNE 30, 2008 – PUBLIC SAFETY BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29	3							3
30-34	2	3	1					6
35-39		2	1	1				4
40-44		2	1	1				4
45-49								
50-54								
55-59								
60-64								
65 & Over								
Totals	**5**	**7**	**3**	**2**				**17**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age: 35.0 years
Average Service: 9.8 years

ACTIVE MEMBERS AS OF JUNE 30, 2008 – POLICE COMMAND BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**
20-24								
25-29								
30-34								
35-39			2					2
40-44								
45-49					3			3
50-54								
55-59								
60-64								
65 & Over								
Totals			**2**		**3**			**5**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Average Age:	41.5	years
Average Service:	18.2	years

INACTIVE MEMBERS AS OF JUNE 30, 2008
BY ATTAINED AGE

Number of Retiree and Beneficiary Contracts

	Opt-Out/ Ineligible	One Person Coverage	Two Person Coverage*	Total
Male	4	4	20	28
Female	11	4	2	17
Total	15	8	22	45

* *Includes family coverage*

Age	Current Retirees Number of Those Covered					
	11-General /Non-Union	**14-General Dept. Heads**	**13-DPW (AFSCME)**	**22-Public Safety**	**23-Police Command**	**Total**
50-54			2	1	2	5
55-59		1	1	5	2	9
60-64	2			1	1	4
65-69			2	2		4
70-74		1	1	1	1	4
75-79			1			1
80-84			1	1		2
85-89						
90-94				1		1
95 +						
Totals	2	2	8	12	6	30

There are 5 terminated members eligible for deferred Plan benefits with an average age of 51.5.

SECTION F

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

VALUATION METHODS FOR CITY OF FARMINGTON RETIREE HEALTH CARE PLAN AS OF JUNE 30, 2008

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

(i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized as a level percent of payroll if the divisions are open to new hires and as a level dollar if the divisions are closed to new hires. The UAAL was determined using the Actuarial value of assets and actuarial accrued liability calculated as of the valuation date.

Actuarial Value of System Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

The following amortization factors were used in developing the Annual Required Contribution for the fiscal years shown:

8.00% Interest	Fiscal Year Beginning July 01, 2009
11-General /Non-Union (Level Dollar)	11.7023
14-General Dept. Heads (Level Dollar)	11.7023
13-DPW (AFSCME) (Level Dollar)	11.7023
22-Public Safety (Level Percent of Pay)	19.7675
23-Police Command (Level Percent of Pay)	19.7675

ACTUARIAL ASSUMPTIONS FOR
CITY OF FARMINGTON RETIREE HEALTH CARE PLAN
AS OF JUNE 30, 2008(CONTINUED)

The rate of investment return was 8.0% a year, compounded annually net after investment expenses.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

	% Increase in Salary at Sample Ages		
Sample Ages	**Merit and Seniority**	**Base (Economic)**	**Increase Next Year**
20	5.0%	5.0%	10.0%
25	4.4%	5.0%	9.4%
30	3.8%	5.0%	8.8%
35	3.1%	5.0%	8.1%
40	2.5%	5.0%	7.5%
45	1.9%	5.0%	6.9%
50	1.3%	5.0%	6.3%
55	0.6%	5.0%	5.6%
60	0.0%	5.0%	5.0%
Ref	70	0.05	

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities for open divisions was assumed to be 5.0% per year.

In addition, salaries of public safety members were assumed to increase an additional 5% in the years preceding retirement as a result of additional overtime hours.

The mortality table was the 1983 Group Annuity Mortality Table. This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	**Women**	**Men**	**Women**
45	0.22%	0.10%	33.74	39.69
50	0.39%	0.16%	29.18	34.92
55	0.61%	0.25%	24.82	30.24
60	0.92%	0.42%	20.64	25.67
65	1.56%	0.71%	16.69	21.29
70	2.75%	1.24%	13.18	17.13
75	4.46%	2.40%	10.15	13.37
80	7.41%	4.29%	7.64	10.20
Ref	#30x1sb0yrs	#31x1sb0yrs		

For disabled retirees, the probabilities of dying at sample attained ages were as follows set forward 10 years.

These assumptions are used to measure the probabilities of each benefit payment being made after retirement.

ACTUARIAL ASSUMPTIONS FOR
CITY OF FARMINGTON RETIREE HEALTH CARE PLAN
AS OF JUNE 30, 2008 (CONTINUED)

Rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

General		**Non-Public Safety Department Heads**		**Public Safety**	
Retirement Ages	**% Retiring**	**Retirement Ages**	**% Retiring**	**Service**	**% Retiring**
		58	20%	25	20%
		59	20%	26	20%
60	20%	60	20%	27	20%
61	20%	61	20%	28	20%
62	30%	62	30%	29	20%
63	20%	63	20%	30	20%
64	20%	64	20%	31	20%
65	80%	65	80%	32	20%
66	30%	66	30%	33	20%
67	40%	67	40%	34	20%
68	50%	68	50%	35	20%
69	90%	69	90%	36	20%
70	100%	70	100%	37	20%
				38	20%
				39	20%
				40	100%
Ref	61		61		36

ACTUARIAL ASSUMPTIONS FOR CITY OF FARMINGTON RETIREE HEALTH CARE PLAN AS OF JUNE 30, 2008 (CONTINUED)

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Service Index	Percent of Active Members Separating Within Next Year: General	Percent of Active Members Separating Within Next Year: Public Safety
ALL	1	15.00%	15.00%
	2	10.00%	10.00%
	3	8.00%	8.00%
	4	7.00%	7.00%
	5	6.00%	6.00%
20	6 & Over	6.00%	4.50%
25		6.00%	4.50%
30		5.10%	3.90%
35		2.70%	2.30%
40		1.60%	0.90%
45		1.10%	0.50%
50		1.00%	0.50%
55		1.00%	0.50%
Ref		17 #58x1	17 #53x1

Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years.

The assumed rates of disablement at various ages are shown below.

Sample Ages	Percent Becoming Disabled Within Next Year	
	General	Public Safety
20	0.08%	0.08%
25	0.08%	0.09%
30	0.08%	0.10%
35	0.08%	0.15%
40	0.20%	0.24%
45	0.26%	0.38%
50	0.49%	0.67%
55	0.89%	1.00%
Ref	#9x1	#5x1

75% of General disabilities were assumed to be non-duty related, and 75% of Public Safety disabilities were assumed to be duty related.

ACTUARIAL ASSUMPTIONS FOR CITY OF FARMINGTON RETIREE HEALTH CARE PLAN AS OF JUNE 30, 2008 (CONTINUED)

Health cost increases for active members are displayed in the following table:

Year Ending	Health Care Trend Inflation Rates	
June 30,	Medical/Drug	Dental
2010	10.00%	5.50%
2011	9.25%	5.25%
2012	8.50%	5.00%
2013	8.00%	5.00%
2014	7.50%	5.00%
2015	7.00%	5.00%
2016	6.50%	5.00%
2017	6.00%	5.00%
2018	5.50%	5.00%
2019	5.00%	5.00%
2020 & Later	5.00%	5.00%

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS FOR CITY OF FARMINGTON RETIREE HEALTH CARE PLAN AS OF JUNE 30, 2008 (CONCLUDED)

Administrative Expenses

No explicit assumption has been made for administrative expenses.

Decrement Operation

Disability and mortality decrements do not operate during the first 5 years of service. Disability also does not operate during retirement eligibility.

Decrement Timing

Decrements of all types are assumed to occur mid-year.

Eligibility Testing

Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Incidence of Contributions

Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

Marriage Assumption

100% of males and 100% of females are assumed to be married at time of decrement. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

Medicare Coverage

Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.

Heath Care Coverage at Retirement

The table below shows the portion of future retirees assumed to elect one-person or two-person/family coverage.

	One-Person	Two-Person
Male	20%	80%
Female	20%	80%

Surviving Spouse Coverage

All future retirees with eligible spouses were assumed to have surviving spouse coverage upon death of the retiree.

GLOSSARY

GLOSSARY

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Annual Required Contribution (ARC). The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

GLOSSARY (CONCLUDED)

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer's group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

Medical Trend Rate (Health Care Inflation). The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Employee Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets. The value of current plan assets recognized for valuation purposes.

March 4, 2009

Mr. Chris Weber
City of Farmington
City Hall, 23600 Liberty Street
Farmington, Michigan 48335

Re: Retirement Health Care Plan

Dear Mr. Weber:

Enclosed are 20 copies of our report of the actuarial valuation of the City of Farmington Retiree Health Care Plan.

Respectfully submitted,

Curtis Powell

CP:lr
Enclosures

cc: Gorden Krater, Plante & Moran, PLLC